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C O N F I D E N T I A L YEREVAN 002588

SIPDIS

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FOR OASIA/MDM FRANKO

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TAGS: [EFIN](#) [EAID](#) [AM](#)

SUBJECT: ARMENIA, TRANSPARENCY OF BUDGETS/MILITARY SPENDING

REF: A. STATE 239929 B. YEREVAN 2510

Classified By: A.F. Godfrey for reasons 104 (b) and (d)

SUMMARY

[11.](#) (U) Following is Yerevan's response to ref A request for information.

Section A: Overview of Military Expenditure Audits

[12.](#) (U) The primary responsibility for auditing the GOAM's military spending lies with the Ministry of Defense's internal auditing mechanism, the Department of Financial Inspection. The Defense Ministry's Department of Financial Inspection conducts internal audits and reports to the Minister of Defense. The framework for the internal auditors is decided annually upon receipt of the Ministry's budget allotment.

[13.](#) (U) The Ministry of Finance and Economy is also charged to audit military spending to the level of "the most detailed version of the government budget." The Ministry of Finance and Economy may review budget expenditures for military spending before the funds are allocated and again at the time of disbursement. Upon request of the Prime Minister, the Ministry of Finance and Economy may carry out a special inspection to ensure proper use of the budget funds for military expenditures, but the Prime Minister has never exercised this option.

[14.](#) (U) The National Assembly has a Supervisory Committee that is charged with auditing any part of the government budget upon request of a Deputy of Parliament, although this committee has never reviewed defense expenditures.

[15.](#) (C) Comment: While Armenia claims it does not provide for the defense of the self-proclaimed "Republic of Nagorno-Karabakh," in fact it is common knowledge that it does. Funds for this purpose are not accounted for in public documents and are therefore not subject to independent oversight. End Comment.

Section B: The Military Budget

[16.](#) (U) The state budget has separate lines for the Ministry of Defense and the Ministry of the Interior (security enforcement).

[17.](#) (C) Several mechanisms exist for significant off-budget spending for defense purposes, including the transfer of state revenues to foundations and the direct sale of state assets (ref. B). The Ministry of Defense reportedly uses these assets to provide for the defense of Nagorno-Karabakh (see above). Because there is no effective independent oversight of these expenditures, it is widely suspected that senior Ministry of Defense officials take advantage of these off-budget funds for personal use.

Section C: Spending Priorities

[18.](#) (C) In the official state budget, national defense, national security and law enforcement spending in 2004 was 74.7 bln dram (USD 150 million), or 23.6 percent of the budget. Spending on the social sector, (health care education and culture) was 111.7 billion AMD (USD 220 million) or 35.5 percent of the budget. There was debate in Parliament this year after the Minister of Defense objected that defense spending was less than spending on education for the first time. The Ministry of Defense also typically benefits from supplemental spending bills throughout the year as well as off-budget expenditures.

EVANS